



County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

June 23, 2014

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To: Supervisor Don Knabe, Chairman
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From: William T Fujioka
Chief Executive Officer

STATE BUDGET - ANALYSIS OF THE FY 2014-15 STATE BUDGET ACT

On June 20, 2014, Governor Brown signed the FY 2014-15 State Budget Act, a \$107.8 billion spending plan that includes a \$1.6 billion reserve and reflects the agreement reached by the Governor, Senate President Pro Tem Steinberg and Assembly Speaker Atkins. In his signing message, the Governor noted that this on-time State Budget pays down debt, shores up the teachers' retirement system, builds a solid Rainy Day Fund, and directs additional funding for local schools and health care.

The Governor also signed 16 budget trailer bills including two important County items:

- **Martin Luther King, Jr. Community Hospital Funding.** SB 857, the Health budget trailer bill, includes County-sponsored language to ensure financing for the new Martin Luther King, Jr. Community Hospital, as provided under the agreement with the State, the University of California, and the County contained in County-sponsored AB 2599 of 2010 (Chapter 267, Statutes of 2010).
- **County Jail Construction.** The approved budget provides \$500 million of additional lease revenue bond financing to counties for jail construction funding AB 1468, the Public Safety budget trailer bill, contains specific County-sponsored language that directs the Department of Finance to work with the County of Los Angeles to identify potential State funding options to address mental health and infrastructure needs of the County's jail system, and to report back to the Joint Legislative Budget Committee by January 15, 2015.

"To Enrich Lives Through Effective And Caring Service"

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The approved budget also includes the following budget items of significant County interest:

- **State Mandate Payments.** The approved budget appropriates \$100 million to local governments to begin repayment of \$900 million in pre-2004 mandate obligations owed to local governments. **It is estimated the County will receive between \$16.8 million and \$25.0 million of the \$100 million payment in FY 2014-15.**
- **Repayment of the Highway User Tax Account (HUTA) Loans.** The approved budget appropriates \$242 million for the early repayment of outstanding HUTA loans to cities and counties for street and road maintenance. **The Department of Public Works and the California Association of Counties estimate that the County will receive approximately \$24.7 million.**

Attachment I provides a list of all the budget trailer bills.

Estimated County Impact

Based on a preliminary analysis, the County will not experience a loss of funding or program reductions from the provisions in the approved State Budget package.

Attachment II provides a summary of budget provisions of interest to the County.

This office will continue to work with affected departments to determine the County impact of the enacted State Budget and will continue to keep you advised.

WTF:RA
MR:VE:IGEA:lm

Attachments

- c: All Department Heads
 Legislative Strategist
 Local 721
 Coalition of County Unions
 California Contract Cities Association
 Independent Cities Association
 League of California Cities
 City Managers Associations
 Buddy Program Participants

The FY 2014-15 State Budget Act and Budget Trailer Bills

Bill Number	Subject
SB 852	Main FY 2014-15 Budget Bill
SB 853	Transportation
SB 854	State and Local Government
SB 855	Human Services
SB 856	Developmental Services
SB 857	Health Omnibus
SB 858	Education Finance
SB 859	Education – Local Control Funding Formula
SB 860	Higher Education
SB 861	Public Resources
SB 862	Cap and Trade
SB 863	Correctional Facilities Construction
SB 865	State Budget Act of 2013: Augmentation
SB 869	School Facilities Construction Bond
SB 870	Health
SB 871	Solar Tax Exemption
AB 1468	Public Safety
AB 1469	State Teachers' Retirement*

*This bill will be signed separately the week of June 23, 2014.

FY 2014-15 STATE BUDGET ACT

Health

Medi-Cal Expansion - County Indigent Savings. The approved budget adopts the Governor's May Revision proposal to redirect \$724.9 million statewide in 1991 Health Realignment funding from counties to the State. This amount reflects potential county indigent health care savings due to the implementation of the Medi-Cal expansion under the Federal Affordable Care Act pursuant to the methodologies contained in AB 85 (Chapter 24, Statutes of 2013).

As previously reported, the FY 2013-14 State Budget Act redirected \$300.0 million statewide in 1991 Health Realignment funding from counties to the State. The amount of funding redirected from Los Angeles County in FY 2013-14 is estimated to be \$88.6 million. **The Department of Health Services (DHS) reports that the approved budget would redirect an estimated \$238.0 million in 1991 Health Realignment funding from the County to the State in FY 2014-15. DHS is working with the Administration to mitigate the impact of this item to the County.**

It is important to note that redirected 1991 Health Realignment funding is subject to a reconciliation and repayment process based on the County's actual savings and expenditures in 2017 as required by AB 85.

Medi-Cal Provider Reimbursement Rates. The approved budget adopts the Governor's May Budget Revision to maintain the 10-percent reduction in Medi-Cal provider reimbursement rates enacted in prior budgets to address significant State Budget shortfalls. However, members of the Legislature, from both parties, noted that California has the lowest provider rates in the country and expressed concern that these rates seriously limit access to health care for Medi-Cal beneficiaries.

Public Health

Black Infant Health Program. The approved budget appropriates \$4.0 million for the Black Infant Health Program.

HIV Prevention Demonstration Projects. The approved budget appropriates \$3.0 million for HIV prevention demonstration projects.

Tuberculosis Control Mandate. The approved budget rejects the Governor's January Budget proposal to suspend the tuberculosis control mandate.

Public Health Licensing and Certification Program. The approved budget appropriates \$1.9 million and 18 limited-term positions to investigate complaints against long-term care professionals through the California Department of Public Health's

(CDPH) Licensing and Certification Program. Among other provisions, the approved budget requires CDPH to report to the Legislature and post on its website an update on CDPH's contract with the County of Los Angeles and its oversight of this contract by October 2014 and annually thereafter, and to assess the feasibility of establishing professional position classifications, as opposed to Health Facility Evaluator Nurses, to perform licensing and certification surveys and/or complaint investigations.

Social Services

In-Home Supportive Services Program (IHSS). The approved budget includes overtime payments for IHSS providers with specific language to avoid excessive overtime payments. The Governor's Budget proposal prohibited IHSS providers from working overtime to control State costs associated with new U.S. Department of Labor regulations which require domestic workers to receive overtime pay effective January 1, 2015. As previously reported, the **Department of Public Social Services (DPSS) indicates that as long as the current IHSS Maintenance of Effort structure remains in place, there would be no direct fiscal impact to the County as a result of IHSS provider overtime costs.**

The approved budget does not restore the seven percent reduction in IHSS hours; however, the Administration has indicated it plans to introduce legislation to resolve this issue soon. Currently, IHSS consumers are subject to an eight percent reduction in hours pursuant to a 2012 settlement agreement, which is scheduled to be reduced to seven percent on July 1, 2014.

CalWORKs. The approved budget contains various items related to the CalWORKs Program, including:

- A five percent increase to the CalWORKs grant effective April 1, 2015, for a cost of \$47.0 million in State General Funds (SGF) in FY 2014-15 and \$184.0 million SGF in FY 2015-16.
- \$20.0 million SGF in on-going funding for CalWORKs housing supports, for rental assistance, utility payments, and other housing stabilization and relocation services.
- A County-supported proposal by the County Welfare Directors Association (CWDA) to clarify provisions under current law to specify that funds provided for Family Stabilization Services may be used to provide housing and other needed services during any month that a family is participating in this component of the CalWORKs Program. As previously reported, **DPSS indicates this action would allow the County greater flexibility in assisting CalWORKs families accessing Family Stabilization Services to obtain a basic level of stability by ensuring that they have adequate and stable housing.**

CalFresh Administration Match Waiver. The approved budget contains a County-supported proposal by CWDA, the California State Association of Counties, and the Urban Counties Caucus to gradually phase out the CalFresh Program Administration Match Waiver to provide flexibility and fiscal relief to counties. Specifically, counties would be eligible to receive the full allocation for CalFresh administration in FY 2014-15, and the waiver amount would be reduced as specified through the subsequent fiscal years, with the elimination of the waiver by FY 2018-19. As previously reported, in 2010, the State enacted the CalFresh Program Administration Match Waiver which enables counties to receive relief from their share of the cost for program administration once they have met their Maintenance of Effort requirement. As previously reported, **DPSS indicates that phasing out the CalFresh Match Waiver would provide flexibility and fiscal relief to Los Angeles County as the match waiver would be reduced gradually and not abruptly.**

CalWORKs and CalFresh Program Eligibility. The approved budget would, beginning April 1, 2015, authorize benefits under the CalWORKs and CalFresh Programs to be paid to an individual who has been convicted of drug possession, use or distribution of a controlled substance, and remove the prohibition under current law. Under the approved budget, if the person is on probation or parole and is ineligible for aid due to violation of a condition of probation or parole, the individual would be ineligible for CalWORKs or CalFresh Program benefits until no longer in violation. This office is working with DPSS to determine any County impact from this action.

Services to Support Child Victims of Commercial Sexual Exploitation. The approved budget includes a modified County-supported budget proposal by CWDA to provide \$5.0 million in FY 2014-15, and \$14.0 million in FY 2015-16, to enable county child welfare agencies to serve child victims of commercial sexual exploitation. The approved budget would: 1) establish the Commercially Sexually Exploited Children Program, administered by the California Department of Social Services (CDSS), to serve children who have been sexually exploited; 2) require CDSS, in consultation with CWDA, to develop an allocation methodology to distribute program funding for prevention and intervention activities, and services for these children; and 3) require CDSS to contract for training for county children's services workers to identify, intervene, and provide case management services to children, and for training of foster caregivers for the prevention and identification of potential victims, among other provisions. **The Department of Children and Family Services (DCFS) indicates that this funding would help county child welfare agencies serve these child victims through social worker, foster parent and service provider training, and supportive services for victims.**

Foster Care Payments for Relative Caregivers. The approved budget provides \$30.0 million in FY 2015-16, and on-going funds, to raise foster care grant payments for non-Federally eligible foster youth who reside with relative caregivers. The funding for FY 2014-15 is \$15.0 million SGF, matching an effective date of January 1, 2015. In addition to the funding, the approved budget establishes the Approved Relative

Caregiver Funding Option Program effective Jan 1, 2015. Under this new program, counties would notify CDSS by October 1 of any year whether they will participate beginning the following January. Once a county opts in, the county will receive funding until the county opts out. This office is working with DCFS to determine any County impact from this action.

Community Care Licensing. The approved budget contains various items relating to Community Care Licensing under CDSS, including an Emergency Client/Resident Contingency Account for the care and relocation of clients and residents, when a facility's license is revoked or temporarily suspended. Specifically, the account must cover costs such as transportation expenses, notifying family members, and providing continuous care and supervision. The approved budget includes a ten percent increase of licensing and application fees, and requires CDSS to analyze initial application fees and annual fees, at least every five years, to determine whether the appropriate fee amounts are being charged, among other provisions. In addition, the approved budget indicates that it is the intent of the Legislature to, over a period of time, increase the frequency of facility inspections resulting in annual inspections for some or all facility types. This office is working with impacted departments to determine any impact to the County.

Dependency Court Appointed Counsel Funding. The approved budget does not contain a County-supported budget proposal by the California Supreme Court Chief Justice, the Children's Law Center of California and others, to provide a \$33.1 million increase over three years under the Judiciary Budget for court-appointed dependency counsel for parents and neglected children to reduce caseloads.

Adult Protective Services (APS) Training Funding. The approved budget does not contain a County-supported proposal by CWDA to provide \$1.25 million in SGF for APS training, including increasing the number of training days for new social workers, supporting curriculum development and training for supervisors, and advanced training for APS workers.

Child Care and Development. The approved budget provides \$256 million in additional funding statewide to: 1) improve child care standards and quality; 2) increase the number child care slots; and 3) increase provider reimbursement rates. The child care and development package includes:

- 7,500 additional preschool slots;
- 500 additional Alternative Payment Program slots;
- 1,000 additional general child care slots;
- \$69.0 million to increase reimbursement rates for all child care programs;

- \$50.0 million in on-going funds for quality enhancement initiatives;
- \$35.0 million in one-time funds for facility and professional development; and
- repeal of the part-day State Preschool Program family fee.

The approved budget includes intent language to fund an additional 31,500 preschool slots in future years to provide pre-kindergarten opportunities for all low-income four-year-old children.

The Chief Executive Office - Office of Child Care (CEO-OCC) notes that over the last five years approximately 36,000 children and their families across the County lost access to State subsidized child care and development services. The approved budget would increase slots across non-CalWORKs subsidized child care slots by 9,000 statewide, of which CEO-OCC estimates that approximately 2,970 will be allocated in the County.

Public Safety

Jail Construction Funding. The approved budget includes \$500 million in lease revenue financing to allocate to counties for jail construction funding. The approved budget includes language to prioritize program and treatment space in funded projects and intent language that emphasizes the need for the State to provide a long-term plan on jail construction to the Legislature.

In addition, the approved budget contains **County-sponsored language** that directs the Department of Finance to work with the County of Los Angeles to identify potential State funding options to address mental health and infrastructure needs of the County's jail system, and to report back to the Joint Legislative Budget Committee by January 15, 2015.

2011 Public Safety Realignment Funding. A component of the Federal three-judge panel's court order to reduce the State prison population by February 28, 2016 includes increased credit earnings for second strikers incarcerated in State prison for a non-violent, non-sex offense from 20 percent to 33.3 percent. Some of these offenders will be eligible for release to Post Release Community Supervision (PRCS) administered by county probation department. As a result, there will be a short-term increase the PRCS population estimated to be 216 in FY 2013-14 and 819 in FY 2014-15. **The approved budget includes an increase to the funding allocation to county probation departments by \$11.3 million to address this population increase. It is not clear at this time how this funding will be allocated amongst the 58 counties.**

Split Sentencing. The approved budget includes language outlining the presumption of split sentences unless a judge finds that it is not appropriate or in the interests of justice. The period of mandatory supervision granted would be at the court's discretion.

The budget also includes language directing the Judicial Council to develop and adopt rules of the court on the use and presumption of split sentencing.

Trial Court Funding. The approved budget includes the Governor's May Revision proposal to provide \$160 million for trial court operations, to cover court health and retiree costs, and to address the decrease in trial court revenues generated by court fees. It also notes that the Governor's FY 2015-16 Budget will include an additional five percent increase in the trial court operations budget. The approved budget includes \$40 million for one-time court construction and infrastructure needs.

Recidivism Reduction Fund. The approved budget includes compromise language related to the use and distribution of monies in the Recidivism Reduction Fund, established by SB 105 (Chapter 310, Statutes of 2013). The compromise includes some elements of the Governor's May Revision proposal such as expansion of in-prison drug treatment and mental health programs but also includes \$18 million to reinstate the Mentally Ill Offender Crime Reduction Program grants. In addition, the Legislature-approved Budget includes the establishment of a county-level competitive grant program administered by county boards of supervisors in collaboration with a county's Community Corrections Partnership, intended to fund community-based service providers that offer recidivism and crime reduction services, including, but not limited to, delinquency prevention, homelessness prevention, and reentry services. If approved by the Governor, **the budget would allocate \$1.6 million to Los Angeles County to establish the competitive grant program and provide grants to community service providers over a four year period.** The maximum grant award for any one community-based service provider would be \$100,000.

Alternative Custody Programs. The approved budget expands a voluntary alternative custody program that is now available to the State for female State prison inmates and would authorize a sheriff or a county director of corrections to implement a voluntary alternative custody program for male and female inmates who have been committed to a county jail for a misdemeanor or for a felony under the AB 109 Program. The approved language defines an alternative custody program to include: 1) confinement to a residential home; 2) confinement to a residential drug treatment program; 3) confinement to a transitional care facility that offers appropriate services; and 4) confinement to a mental health clinic or hospital that offers appropriate mental health services. The language would authorize, but not require, the sheriff or the county director of corrections to use electronic monitoring, global positioning system devices, or other supervising devices.

Probation. The approved budget includes \$124.8 million for FY 2014-15 to fund SB 678 payments to county probation departments. SB 678 of 2009, the California Community Corrections Performance Incentive Act, provides funding to counties that successfully reduce the number of felony probationers that are sent to State prison on new charges. The proposed allocation reflects the changes to the SB 678 formula made by SB 105 of 2013 and represents a significant increase over the amount under the previous formula. **The SB 678 allocations for FY 2014-15 will not be known until**

next year but preliminary estimates based on available data are that the Probation Department will receive approximately \$50.0 million for FY 2014-15.

City Law Enforcement Grants. The approved budget includes a total of \$40.0 million for FY 2014-15 for grants provided to city law enforcement agencies to fund front line law enforcement.

Fire Camps. The Governor's January Budget proposed to reduce the daily rate for the Fire Camp contracts from \$46.10 per day to \$10.00 per day for inmates housed in the State-run fire camps to increase utilization of the fire camps as an alternative to jail particularly for those inmates with longer jail sentences. However, notice was sent to counties on June 11, 2014, that the \$10 per day rate was implemented administratively and is retroactive to January 1, 2014. Therefore, this item is no longer included in the approved budget package.

General Government

State-County Assessor Partnership Program. The approved budget establishes a three-year State-County Assessors' Partnership Pilot Program administered by the California Department of Finance to enhance local property tax assessment efforts. The pilot will include nine county assessor offices represented by a mix of urban, suburban, and rural counties.

Extension of Property Tax Exemption for Solar Projects. The approved budget extends the sunset date for the property tax exemption for commercial and residential solar energy systems to January 1, 2025. The extension of the tax exemption will result in an estimated statewide reduction of \$5 million annually in ad valorem tax revenue.

Transportation

Repayment of the Highway User Tax Account (HUTA) Loans. The approved budget appropriates \$242 million for the early repayment of outstanding HUTA loans and State Highway Account funds to cities and counties for street and road maintenance. **The Department of Public Works and the California Association of Counties estimate that Los Angeles County will receive approximately \$24.7 million.**

Environment and Natural Resources

Cap-and-Trade Expenditure Plan. The approved budget appropriates \$872 million of cap-and-trade revenue in FY 2014-15 and contains statutory language to continuously appropriate 60 percent of ongoing cap-and-trade revenues beginning in FY 2015-16.

The appropriation for FY 2014-15 includes:

- \$250 million for high-speed rail, \$130 million for affordable housing;

- \$25 million for transit and intercity rail capital program;
- \$25 million for low carbon transit operations;
- \$200 million for low carbon forms of transportation; and
- \$202 million to other natural resources and energy efficiency programs.

The FY 2014-15 appropriation includes \$40 million previously allocated through the emergency drought relief funding legislation approved earlier this year (SB 103, Chapter 2, Statutes of 2014).

The approved budget includes the following allocation methodology for 60 percent of cap-and-trade revenues in future years, beginning in FY 2015-16:

- 35 percent continuously appropriated for the Transit, Affordable Housing, and Sustainable Communities Program.
- 15 percent will be for transit (including 10 percent for transit and intercity rail capital program and 5 percent for low-carbon transit operations).
- 20 percent for the Affordable Housing and Sustainable Communities Program (with half of this funding dedicated for affordable housing projects that demonstrate a reduction in greenhouse gases).
- 25 percent continuously appropriated for High Speed Rail Authority to continue construction.
- 40 percent continuously appropriated for investments in Low Carbon Transportation, Natural Resources programs, Energy programs, and other programs.

SB 862, the Cap and Trade budget trailer bill provides the necessary programmatic framework to allow for funds appropriated in the budget to be expended in a manner consistent with existing State policies, and appropriates future cap-and-trade revenues for FY 2015-16 and beyond. The Legislature indicated that it would introduce clean-up legislation to provide more details about the programs and eligible recipients. It is anticipated that local governments will be eligible for several of the programs listed above, particularly waste diversion, water efficiency and energy efficiency programs.

Groundwater Management. The approved budget appropriates \$2.5 million in State General Fund revenues for implementation of a new groundwater management plan, which is part of the Governor's Five-year California Water Action Plan.

Drought Response. The approved budget appropriates \$18.0 million in one-time State General Fund revenues to address California's drought emergency, including \$2.0 million which will be directed to assist local agencies with emergency water supply drought projects. The remaining funding will be used for responding to critical water shortage and drought impacts, the Drought Emergency Operations Center, and the State's Save Our Water education and outreach campaign.